

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Missaukee County	County Missaukee
Audit Date 12/31/04	Opinion Date 3/9/05	Date Accountant Report Submitted to State: 6/30/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☒ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 250 Front Street	City Traverse City	State Mi	ZIP 49684
Accountant Signature <i>Amitha Eustice</i>		Date 6/30/05	

MISSAUKEE COUNTY, MICHIGAN

FINANCIAL STATEMENTS

**For the Fiscal Year Ended
December 31, 2004**

MISSAUKEE COUNTY, MICHIGAN

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

March 9, 2005

Board of Commissioners
Missaukee County
Lake City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *Missaukee County, Michigan* (the "County"), as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the *District Health Department Number 10* discrete component unit, which represents 89 percent and 97 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the *District Health Department Number 10*, discretely presented component unit, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

Management has not included the *Missaukee County Road Commission*, a discrete component unit in the Missaukee County, Michigan financial statements. Accounting principles generally accepted in the United States of America require *Missaukee County Road Commission* be presented as a discretely presented component unit thus increasing that opinion units assets, liabilities, revenues and expenses. The amount by which this departure would affect the assets, liabilities, revenues and expenses of the aggregate discretely presented component units is not reasonably determinable.

In our opinion, because of the omission of the *Missaukee County Road Commission*, as discussed above, the financial statements of the aggregate discretely presented component units do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units as of December 31, 2004 and the changes in financial position and cash flows thereof for the year then ended.

Also, in our opinion, based upon our audit and the report of other auditors, except for the effect of not including financial information for the *Missaukee County Road Commission* as part of the aggregate discretely presented component units, as discussed above, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of ***Missaukee County, Michigan*** as of December 31, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ***Missaukee County, Michigan's***, basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statement of the County. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except as noted in paragraphs three and four, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2005 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Management's Discussion and Analysis

As management of *Missaukee County, Michigan*, (the "County") we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2004.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$8,252,929 (*net assets*). Of this amount, \$6,411,065 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$424,737.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$1,919,856, an increase of \$763,490 in comparison with the prior year. Approximately 74 percent of this total amount, or \$1,414,893, is *available for spending* at the government's discretion (*unreserved and undesignated fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$115,049 or 3.1 percent of total general fund expenditures and transfers out.
- The County's total bonded debt decreased by \$317,400 during the current fiscal year. The key factor in this decrease was the annual payments on the bonds and there were no new general obligation bonds issued.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected special assessments).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety (including the jail), health and welfare, public works, and parks and recreation. The business-type activities of the County are related to the collection of delinquent property taxes.

The government-wide financial statements include not only Missaukee County itself (known as the primary government), but also the legally separate Missaukee County Road Commission, District Health Department No. 10 and Missaukee County Council on Aging, for which Missaukee County is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself, except for the Road Commission, which has been excluded from these financial statements.

The government-wide financial statements can be found on pages 14-16 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues,

expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 35 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Emergency Services, Tax Reserve, Sheriff Special Forces, Missaukee Sanitary Drainage District No. 2, Housing, and Capital Reserve funds, each of which are considered to be major funds. Data from the other 28 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The County adopts an annual appropriated budget for its general and special revenue funds.

The basic governmental fund financial statements can be found on pages 17-27 of this report.

Proprietary funds. The County has one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for its delinquent tax collections.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements, provide separate information for the Unpledged and 2003 Tax Levy Enterprise Funds, which are considered to be major funds. Individual fund data for enterprise funds are provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 28-30 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 31 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32-49 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information*. This includes the combining and individual fund financial statements and schedules. Combining and individual fund statements and schedules can be found on pages 50-65 of this report, with the single audit section immediately following.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Missaukee County, assets exceeded liabilities by \$8,252,929 at the close of fiscal 2004.

One of the largest portions of the County's net assets (34 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Missaukee County's Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 6,138,124	\$ 5,001,233	\$3,045,643	\$ 3,385,350	\$9,183,767	\$ 8,386,583
Capital assets, net	<u>2,468,324</u>	<u>2,917,774</u>	<u>-</u>	<u>-</u>	<u>2,468,324</u>	<u>2,917,774</u>
Total assets	<u>8,606,448</u>	<u>7,919,007</u>	<u>3,045,643</u>	<u>3,385,350</u>	<u>11,652,091</u>	<u>11,304,357</u>
Long-term debt, net of current portion	1,059,629	1,376,490	-	-	1,059,629	1,376,490
Other liabilities	<u>2,339,533</u>	<u>2,505,734</u>	<u>-</u>	<u>1,523</u>	<u>2,339,533</u>	<u>2,507,257</u>
Total liabilities	<u>3,399,162</u>	<u>3,882,224</u>	<u>-</u>	<u>1,523</u>	<u>3,399,162</u>	<u>3,883,747</u>
Net assets						
Invested in capital assets, net of related debt	2,817,501	2,908,879	-	-	2,817,501	2,908,879
Restricted	163	98,553	-	-	163	98,553
Unrestricted	<u>2,389,622</u>	<u>1,029,351</u>	<u>3,045,643</u>	<u>3,383,827</u>	<u>5,435,265</u>	<u>4,413,178</u>
Total net assets	<u>\$ 5,207,286</u>	<u>\$4,036,783</u>	<u>\$3,045,643</u>	<u>\$ 3,383,827</u>	<u>\$8,252,929</u>	<u>\$ 7,420,610</u>

An additional portion of the County's net assets (\$163) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (65 percent or \$5,435,265) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

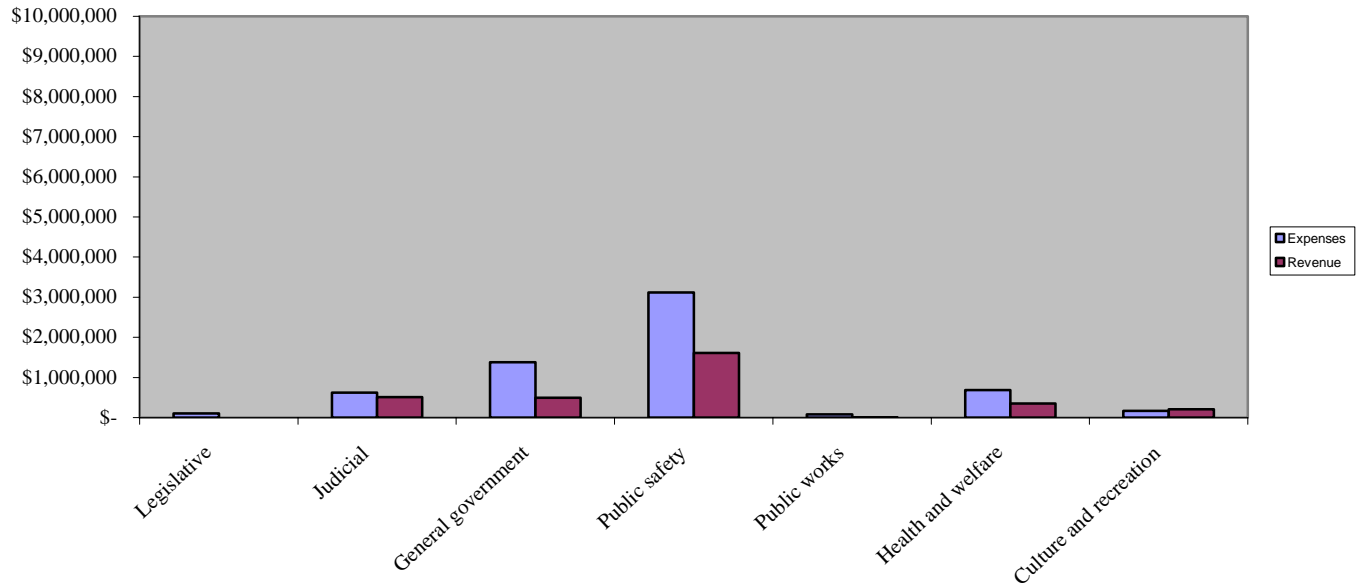
The government's net assets increased by \$424,737 during the current fiscal year. This increase was caused by the acquisition of new Capital Assets and a reduction in total liabilities due to other funds and sources.

Missaukee County's Changes in Net Assets

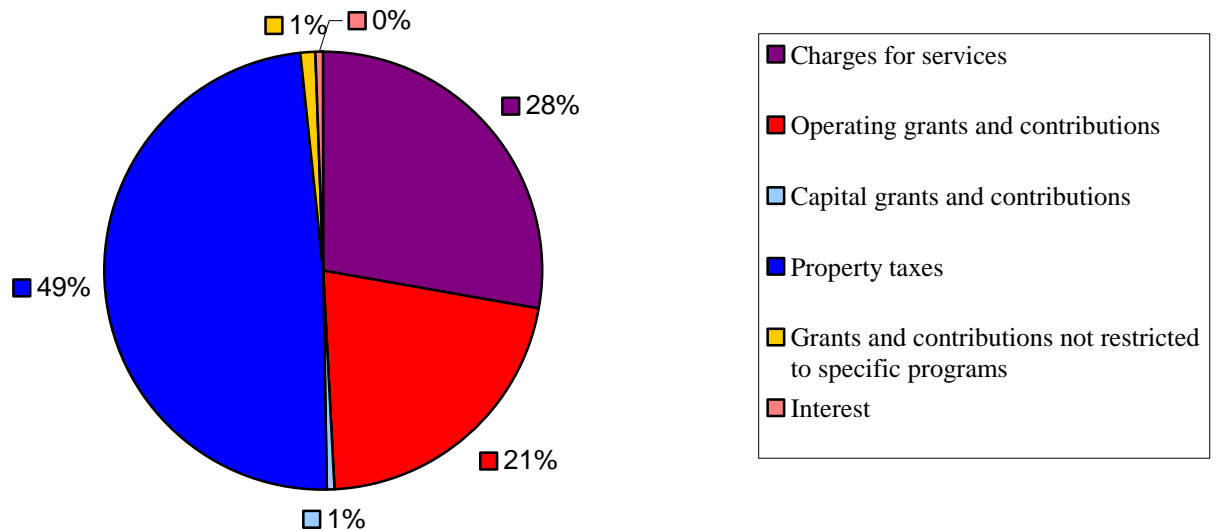
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenue						
Program revenue						
Charges for services	\$ 1,777,935	\$ 1,583,485	\$ 134,551	\$ 160,580	\$ 1,912,486	\$ 1,744,065
Operating grants and contrib.	1,370,192	1,442,515	-	-	1,370,192	1,442,515
Capital grants and contrib.	38,793	34,642	-	-	38,793	34,642
General revenue						
Property taxes	3,109,952	2,346,136	-	-	3,109,952	2,346,136
Grants and contributions not restricted to specific programs	85,887	248,103	-	-	85,887	248,103
Other	<u>27,846</u>	<u>26,231</u>	<u>25,523</u>	<u>19,586</u>	<u>53,369</u>	<u>45,817</u>
Total revenue	<u>6,410,605</u>	<u>5,681,112</u>	<u>160,074</u>	<u>180,166</u>	<u>6,570,679</u>	<u>5,861,278</u>
Expenses						
Legislative	103,885	111,289	-	-	103,885	111,289
Judicial	624,179	664,905	-	-	624,179	664,905
General government	1,376,570	1,318,887	-	-	1,376,570	1,318,887
Public safety	3,115,080	2,802,614	-	-	3,115,080	2,802,614
Public works	76,864	152,488	-	-	76,864	152,488
Health and welfare	683,136	730,472	-	-	683,136	730,472
Recreation and cultural	166,228	195,980	-	-	166,228	195,980
Delinquent property tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,269</u>	<u>-</u>	<u>12,269</u>
Total expenses	<u>6,145,942</u>	<u>5,976,635</u>	<u>-</u>	<u>12,269</u>	<u>6,145,942</u>	<u>5,988,904</u>
Increase (decrease) in net assets before transfers	264,663	(295,523)	160,074	167,897	424,737	(127,626)
Transfers	<u>498,258</u>	<u>421,214</u>	<u>(498,258)</u>	<u>(421,214)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>762,921</u>	<u>125,691</u>	<u>(338,184)</u>	<u>(253,317)</u>	<u>424,737</u>	<u>(127,626)</u>
Net assets – beginning of Year, as restated	<u>4,444,365</u>	<u>3,911,092</u>	<u>3,383,827</u>	<u>3,637,144</u>	<u>7,828,192</u>	<u>7,548,236</u>
Net assets – end of year	<u>\$ 5,207,286</u>	<u>\$ 4,036,783</u>	<u>\$ 3,045,643</u>	<u>\$ 3,383,827</u>	<u>\$ 8,252,929</u>	<u>\$ 7,420,610</u>

Governmental activities. Governmental activities increased the County's net assets by \$762,921. The key element of this increase is that property taxes increased by approximately \$763,816 (33 percent) during the year. Most of this increase is the product of increased taxable values and residential growth and the State implemented a new program by accelerating tax revenues to replace state share revenue.

Expenses and Program Revenues - Governmental Activities

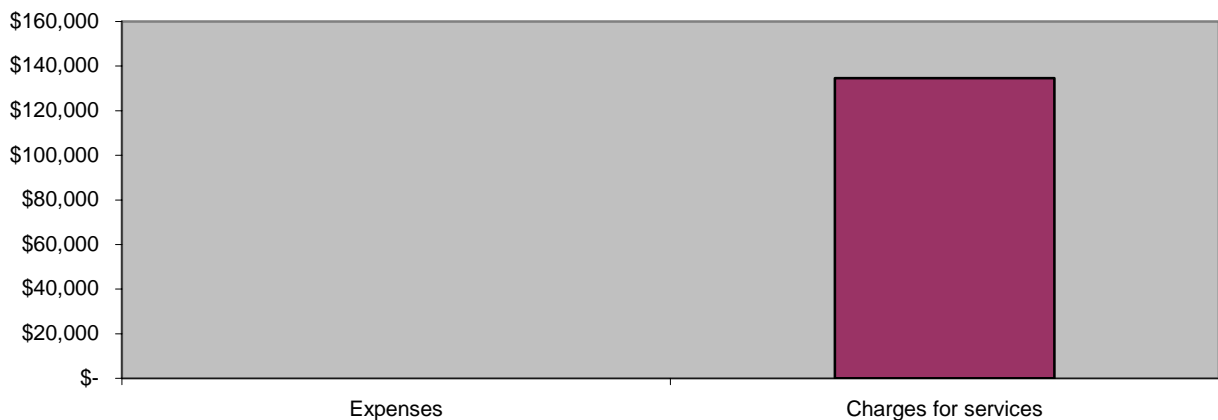


Revenues by Source - Governmental Activities



Business-type activities. Business-type activities decreased the County’s net assets by \$338,184. The key element of this decrease is that the transfer out of \$641,434 to finance various operations of the County.

Expenses and Program Revenues - Business-type Activities



Financial Analysis of the Government’s Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County’s financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County’s governmental funds reported combined ending fund balances of \$1,919,856, an increase of \$763,490 in comparison with the prior year. Approximately 74 percent of this total amount, \$1,414,893, constitutes *unreserved and undesignated fund balance*, which is available for spending at the government’s discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) for prepaid items \$54,101, 2) to pay debt service \$163, 3) to pay for capital projects \$49,247, 4) to finance TNT operations \$247,828 and 5) designated for subsequent years expenditures \$153,624.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$115,049, while total fund balance was \$169,150. As a measure of the general fund’s liquidity, it may be useful to

compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 3.1 percent of total general fund expenditures and transfers out.

The fund balance of the County's General fund decreased by \$50,146 during the current fiscal year. This is primarily attributable to the decrease of state share revenue replaced with property taxes.

The Emergency Services fund had an increase in fund balance for the current year of \$144,795 for an ending total of \$663,425. This increase was primarily the result of an increase in services.

The Tax Reserve fund had an increase in fund balance for the current year of \$526,793. This is a new fund created to account for the new State mechanism to replace state share revenue by accelerating the recognition of property taxes.

The Sheriff Special Forces fund had a decrease in fund balance for the current year of \$40,769 for an ending total of \$283,494. The decrease was primarily the result of an increase in operating expenses.

The *Housing* fund had a decrease in fund balance for the current year of \$20,081 for an ending total of \$17,852. This was attributed to use of fund balance to fund housing projects.

The Missaukee Sanitary Drainage District No. 2 had a decrease in fund balance for the current year of \$1,788 for an ending total of \$ -.

The Capital Reserve fund had an increase in fund balance for the current year of \$90,000 for an ending total of \$(538,056). The increase was primarily the result of the fund being reimbursed for expenditures incurred.

Proprietary funds. The County's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

General Fund Budgetary Highlights

The largest increase of amended budget over actual during the year was State revenue in the amount of \$12,906 and a decrease in building and grounds expenditures in the amount of \$38,028. This was primarily due to an increase in State grant programs and a decrease in repairs to buildings and capital assets.

During the year, general fund revenues were less than budgetary estimates, expenditures were less than the amended budget and net transfers were less than the amended budget. The net differences resulted in an actual decrease in fund balance of \$50,146 compared to the budgeted \$800 change in fund balance.

Capital Asset and Debt Administration

Capital assets. The County's investment in capital assets for its governmental type activities as of December 31, 2004, amounted to \$2,821,747 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, and vehicles. The total decrease in the County's investment in capital assets for the current fiscal year was 33 percent. The County's business-type activities have no capital assets.

Missaukee County's Capital Assets

(net of depreciation)

	Governmental <u>Activities</u>
Land	\$ 353,423
Buildings	2,213,915
Equipment	190,229
Vehicles	<u>64,180</u>
Total	<u>\$2,821,747</u>

Additional information on the County's capital assets can be found in Note III B on pages 40-41 of this report.

Long-term debt. At the end of the current fiscal year, the County had total debt outstanding of \$1,075,790. Of this amount, \$975,800 comprises debt backed by the full faith and credit of the government. The remainder of the County's debt represents a note payable and compensated absences.

Missaukee County's Outstanding Debt

General Obligation Bonds

	Governmental <u>Activities</u>
General obligation bonds	<u>\$ 975,800</u>

The County's total debt not including compensated absences decreased by \$322,024 (25 percent) during the current fiscal year, with no new debt issuances.

The County currently does not have a bond rating.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the County is \$39,491,130, which is significantly in excess of the County's outstanding general obligation debt.

Additional information on the County's long-term debt can be found in Note III D on pages 42-44 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the County's budget for the 2005 fiscal year:

- Certain non-mandatory offices and departments had personnel cut to prepare for the decrease in revenues projected to occur within the next three years.
- Inflationary trends in the region compare favorably to national indices.
- Expired labor contracts with three separate bargaining units were settled in 2002-03; consequently, pay increases were budgeted for those employees along with a marked increase in pension costs and medical costs tied to these new contracts which became evident in 2004 and again in 2005.
- Due to the uncertain nature of the States proposed 2004 budget and the shift of state revenue sharing to a three year reserve summer taxing schedule, the County has decided to take a pro-active stance and work within a greatly reduced budget proposal for the next five years.
- There was a 30% growth in Missaukee County population with the 2000 census and we budgeted accordingly taking into account the mandatory services necessary to take care of this growth.

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Missaukee County Clerk, P.O. Box 800, Lake City, MI 49651.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

MISSAUKEE COUNTY, MICHIGAN

STATEMENT OF NET ASSETS

DECEMBER 31, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,549,020	\$ 1,938,849	\$ 3,487,869
Receivables, net			
Accounts	172,412	2,394	174,806
Taxes	2,729,616	371,273	3,100,889
Lease	975,800	-	975,800
Interest	-	43,519	43,519
Due from other governments	260,067	378	260,445
Internal balances	(689,230)	689,230	-
Assets held for sale	159,179	-	159,179
Prepaid items and other assets	54,101	-	54,101
Loans receivable	573,736	-	573,736
Land	353,423	-	353,423
Capital assets, net	2,468,324	-	2,468,324
Total assets	8,606,448	3,045,643	11,652,091
Liabilities			
Accounts payable	185,310	-	185,310
Accrued wages	37,814	-	37,814
Accrued interest payable	8,059	-	8,059
Unearned revenue	2,092,189	-	2,092,189
Long-term liabilities			
Due within one year	16,161	-	16,161
Due in more than one year	1,059,629	-	1,059,629
Total liabilities	3,399,162	-	3,399,162
Net assets			
Invested in capital assets, net of related debt	2,817,501	-	2,817,501
Restricted for			
Debt service	163	-	163
Unrestricted	2,389,622	3,045,643	5,435,265
Total net assets	\$ 5,207,286	\$ 3,045,643	\$ 8,252,929

The accompanying notes are an integral part of these financial statements.

Component Units	
Health Department No. 10	Council on Aging
\$ 857,223	\$ 60,337
40,954	19,653
-	199,461
-	-
-	-
671,101	-
-	-
142,857	-
-	-
-	-
-	-
385,939	-
2,098,074	279,451
990,691	7,112
-	1,273
-	-
146,758	199,461
-	-
440,805	-
1,578,254	207,846
385,939	-
-	-
133,881	71,605
\$ 519,820	\$ 71,605

MISSAUKEE COUNTY, MICHIGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
Legislative	\$ 103,885	\$ -	\$ -	\$ -	\$ (103,885)
Judicial	624,179	289,902	221,183	-	(113,094)
General government	1,376,570	460,890	33,602	-	(882,078)
Public safety	3,115,080	781,160	789,196	38,793	(1,505,931)
Public works	76,864	-	11,659	-	(65,205)
Health and welfare	683,136	38,664	314,552	-	(329,920)
Recreation and cultural	166,228	207,319	-	-	41,091
Total governmental activities	<u>6,145,942</u>	<u>1,777,935</u>	<u>1,370,192</u>	<u>38,793</u>	<u>(2,959,022)</u>
Business-type activities					
Delinquent tax revolving	-	134,551	-	-	134,551
Total primary government	<u>\$ 6,145,942</u>	<u>\$ 1,912,486</u>	<u>\$ 1,370,192</u>	<u>\$ 38,793</u>	<u>\$ (2,824,471)</u>
Component units					
Health Department	11,677,810	3,583,780	8,214,090	-	120,060
Council on Aging	447,193	169,298	48,019	16,002	(213,874)
Total component units	<u>\$ 12,125,003</u>	<u>\$ 3,753,078</u>	<u>\$ 8,262,109</u>	<u>\$ 16,002</u>	<u>\$ (93,814)</u>

Continued...

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY, MICHIGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2004

Functions/Programs	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (2,959,022)	\$ 134,551	\$ (2,824,471)
General revenues			
Taxes			
Property taxes	3,109,952	-	3,109,952
Grants and contributions not restricted to specific programs	85,887	-	85,887
Unrestricted investment earnings	27,846	25,523	53,369
Other revenue	-	-	-
Internal transfers	498,258	(498,258)	-
Total general revenues, contributions and transfers	3,721,943	(472,735)	3,249,208
Change in net assets	762,921	(338,184)	424,737
Net assets, beginning of year	4,444,365	3,383,827	7,828,192
Net assets, end of year	\$ 5,207,286	\$ 3,045,643	\$ 8,252,929

The accompanying notes are an integral part of these financial statements.

Component units	
Health Department No. 10	Council on Aging
\$ 120,060	\$ (213,874)
-	186,464
-	-
4,999	1,202
11,513	-
-	-
16,512	187,666
136,572	(26,208)
383,248	97,813
\$ 519,820	\$ 71,605

Concluded

FUND FINANCIAL STATEMENTS

MISSAUKEE COUNTY, MICHIGAN

**BALANCE SHEET
GOVERNMENTAL FUNDS**

DECEMBER 31, 2004

	General	Emergency Services	Tax Reserve	Sheriff Special Forces	Housing
Assets					
Cash and cash equivalents	\$ 47,275	\$ 495,684	\$ -	\$ 288,452	\$ 30,242
Receivables					
Accounts	-	172,412	-	-	-
Loans	-	-	-	-	573,736
Taxes	1,354,658	203,199	677,967	493,792	-
Lease	-	-	-	-	-
Due from other funds	161,275	-	-	-	-
Due from other governments	132,533	-	-	-	-
Prepaid items and other assets	54,101	-	-	-	-
Assets held for sale	-	-	-	-	-
Total assets	\$ 1,749,842	\$ 871,295	\$ 677,967	\$ 782,244	\$ 603,978
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 48,281	\$ 1,991	\$ -	\$ 410	\$ 12,390
Accrued liabilities	26,223	2,680	-	4,548	-
Due to other funds	151,530	-	151,174	-	-
Deferred revenue	1,354,658	203,199	-	493,792	573,736
Advance from other funds	-	-	-	-	-
Total liabilities	1,580,692	207,870	151,174	498,750	586,126
Fund balances					
Reserved	54,101	-	-	-	-
Unreserved					
Designated for subsequent years' expenditures	-	26,164	-	100,053	-
Undesignated (deficit)	115,049	637,261	526,793	183,441	17,852
Undesignated, reported in nonmajor Special revenue funds	-	-	-	-	-
Total fund balances (deficit)	169,150	663,425	526,793	283,494	17,852
Total liabilities and fund balances	\$ 1,749,842	\$ 871,295	\$ 677,967	\$ 782,244	\$ 603,978

The accompanying notes are an integral part of these financial statements.

Missaukee Sanitary Drainage District No. 2	Capital Reserve	Other Governmental Funds	Total
\$ -	\$ -	\$ 687,367	\$ 1,549,020
-	-	-	172,412
-	-	-	573,736
-	-	-	2,729,616
810,000	-	165,800	975,800
-	-	30,410	191,685
-	-	127,535	260,068
-	-	-	54,101
-	-	159,179	159,179
\$ 810,000	\$ -	\$ 1,170,291	\$ 6,665,617

\$ -	\$ -	\$ 122,235	\$ 185,307
-	-	4,363	37,814
-	-	40,155	342,859
810,000	-	206,340	3,641,725
-	538,056	-	538,056
810,000	538,056	373,093	4,745,761
-	-	297,238	351,339
-	-	27,407	153,624
-	(538,056)	-	942,340
-	-	472,553	472,553
-	(538,056)	797,198	1,919,856
\$ 810,000	\$ -	\$ 1,170,291	\$ 6,665,617

Continued...

MISSAUKEE COUNTY, MICHIGAN

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2004

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

Fund balances - total governmental funds	\$	1,919,856
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets	4,755,758
Subtract: accumulated depreciation	(1,934,011)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: other lease receivable deferred revenues	975,800
Add: other loan receivable deferred revenues	573,736

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds payable	(975,800)
Subtract: note payable	(4,246)
Subtract: compensated absences	(95,744)
Subtract: accrued interest on long-term liabilities	(8,063)

Net assets of governmental activities	\$	<u>5,207,286</u>
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Concluded

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	General	Emergency Services	Tax Reserve	Sheriff Special Forces	Housing
Revenues					
Property taxes	\$ 1,789,436	\$ 183,564	\$ 677,967	\$ 458,985	\$ -
Licenses and permits	12,147	-	-	-	-
Intergovernmental revenue					
Federal	98,704	-	-	-	-
State	421,152	-	-	-	-
Local	32,092	-	-	-	-
Charges for services	362,314	293,839	-	-	-
Fines and forfeitures	-	-	-	-	-
Reimbursements	91,386	-	-	-	-
Interest	9,319	4,709	-	4,186	-
Rental revenue	79,149	-	-	-	-
Other revenue	158,663	921	-	3,999	35,853
Total revenues	3,054,362	483,033	677,967	467,170	35,853
Expenditures					
Current expenditures					
Legislative	103,885	-	-	-	-
Judicial	604,775	-	-	-	-
General government	1,251,925	-	-	-	-
Public safety	1,254,143	331,795	-	507,939	-
Public works	15,002	-	-	-	-
Health and welfare	206,018	-	-	-	55,934
Recreation and cultural	11,455	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Capital outlay	17,736	6,443	-	-	-
Total expenditures	3,464,939	338,238	-	507,939	55,934
Revenue over (under) expenditures	(410,577)	144,795	677,967	(40,769)	(20,081)
Other financing sources (uses)					
Transfers in	649,431	-	-	-	-
Transfers out	(289,000)	-	(151,174)	-	-
Total other financing sources (uses)	360,431	-	(151,174)	-	-
Net change in fund balances	(50,146)	144,795	526,793	(40,769)	(20,081)
Fund balances (deficit), beginning of year	219,296	518,630	-	324,263	37,933
Fund balances (deficit), end of year	\$ 169,150	\$ 663,425	\$ 526,793	\$ 283,494	\$ 17,852

The accompanying notes are an integral part of these financial statements.

Missaukee Sanitary Drainage District No. 2	Capital Reserve	Other Governmental Funds	Total
\$ -	\$ -	\$ -	\$ 3,109,952
-	-	-	12,147
-	-	402,653	501,357
-	-	169,524	590,676
196,163	-	561,606	789,861
-	-	432,321	1,088,474
-	-	267,034	267,034
-	-	-	91,386
2	-	9,631	27,847
-	-	-	79,149
-	-	7,811	207,247
196,165	-	1,850,580	6,765,130
-	-	-	103,885
-	-	9,272	614,047
-	-	29,118	1,281,043
-	-	853,278	2,947,155
-	-	-	15,002
-	-	566,168	828,120
-	-	150,325	161,780
150,000	-	167,400	317,400
47,953	-	18,467	66,420
-	-	140,866	165,045
197,953	-	1,934,894	6,499,897
(1,788)	-	(84,314)	265,233
-	95,000	294,000	1,038,431
-	(5,000)	(95,000)	(540,174)
-	90,000	199,000	498,257
(1,788)	90,000	114,686	763,490
1,788	(628,056)	682,512	1,156,366
\$ -	\$ (538,056)	\$ 797,198	\$ 1,919,856

Continued...

MISSAUKEE COUNTY, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2004

**Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental
Funds to the Statement of Activities**

Net change in fund balances - total governmental funds	\$ 763,490
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	157,003
Subtract: depreciation expense	(253,030)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Subtract: lease receivable revenue	(317,375)
Subtract: loan receivable expense	144,668
Add: loan receivable payments	(37,094)

Note proceeds provide current financial resources to governmental funds in the period issued, but issuing notes increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: current year principal payments	322,049
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: current year accrued interest on bonds	4,559
Add: decrease in the accrual of compensated absences	(21,349)

Change in net assets of governmental activities	<u>\$ 762,921</u>
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Concluded

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	\$ 1,847,431	\$ 1,792,961	\$ 1,789,436	\$ (3,525)
Licenses and permits	10,677	12,875	12,147	(728)
Intergovernmental				
Federal	55,980	103,838	98,704	(5,134)
State	586,811	408,246	421,152	12,906
Local	32,800	32,800	32,092	(708)
Charges for services	376,200	391,198	362,314	(28,884)
Reimbursements	100,000	100,000	91,386	(8,614)
Interest	30,000	9,300	9,319	19
Rental revenue	80,350	80,350	79,149	(1,201)
Other revenue	166,750	159,150	158,663	(487)
Total revenues	3,286,999	3,090,718	3,054,362	(36,356)
Legislative				
Board of Commissioners	114,112	104,921	103,885	(1,036)
Judicial				
Circuit court	392,922	379,471	388,191	8,720
District court	119,466	109,726	110,002	276
Jury board	2,351	2,150	1,862	(288)
Probate Court	106,358	105,567	104,720	(847)
Total judicial	621,097	596,914	604,775	7,861
General government				
Elections	27,850	28,850	28,418	(432)
Clerk/Register of deeds	210,907	205,968	210,030	4,062
Equalization	164,287	158,936	163,700	4,764
Prosecuting Attorney	240,604	229,792	233,913	4,121
Treasurer	124,389	135,614	130,136	(5,478)
Cooperative extension	66,082	64,322	64,883	561
Record copy	61,500	63,400	62,784	(616)
Building and grounds	222,121	299,032	261,004	(38,028)
Soil conservation	28,687	22,582	22,281	(301)
Survey and remonumentatin	37,358	37,000	32,288	(4,712)
Special appropriations	36,048	36,048	36,048	-
Miscellaneous	18,146	6,500	6,440	(60)
Total general government	1,237,979	1,288,044	1,251,925	(36,119)

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under) Final Budget
Public safety				
Sheriff	\$ 279,170	\$ 274,114	\$ 282,888	\$ 8,774
Marine law enforcement	25,880	24,769	25,458	689
Snowmobile patrol	9,330	9,309	8,368	(941)
Road patrol	92,295	67,221	68,190	969
CJ training grant	6,000	4,500	4,827	327
Jail	669,649	650,636	668,547	17,911
Inmate work program	13,122	13,115	13,021	(94)
Planning commission	75,931	120,704	122,540	1,836
Animal control	400	1,700	1,669	(31)
ORV enforcement	25,664	24,180	25,346	1,166
TNT grant match	28,000	32,900	33,289	389
Total public safety	1,225,441	1,223,148	1,254,143	30,606
Public works				
Recycling center	15,250	15,000	15,002	2
Health and welfare				
District health department	143,460	141,860	138,723	(3,137)
Northwest senior resources	3,014	3,014	3,014	-
Mental health	35,275	35,272	35,272	-
Substance abuse	15,272	15,772	15,772	-
Medical Examiner	9,598	5,100	5,050	(50)
Veterans Affairs	9,765	8,560	8,187	(373)
Total health and welfare	216,384	209,578	206,018	(3,560)
Recreation and culture				
Parks and recreation	17,500	18,600	11,455	(7,145)
Capital outlay	15,000	15,000	17,736	2,736
Total expenditures	3,462,763	3,471,205	3,464,939	(6,655)

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues over (under) expenditures	\$ (175,764)	\$ (380,487)	\$ (410,577)	\$ (29,701)
Other financing sources (uses)				
Transfer in	414,764	670,287	649,431	(20,856)
Transfer out	(239,000)	(289,000)	(289,000)	-
Total other financing sources (uses)	175,764	381,287	360,431	(20,856)
Net change in fund balance	-	800	(50,146)	(50,946)
Fund balance, beginning of year	219,296	219,296	219,296	-
Fund balance, end of year	\$ 219,296	\$ 220,096	\$ 169,150	\$ (50,946)

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
EMERGENCY SERVICES SPECIAL REVENUE FUND**

FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under) Final Budget
Revenues				
Property taxes	\$ 190,000	\$ 184,000	\$ 183,564	\$ (436)
Intergovernmental				
Local	1,000	-	-	-
Charges for services	200,000	248,000	293,839	45,839
Interest	3,000	3,500	4,709	1,209
Other revenue	-	-	921	921
Total revenues	394,000	435,500	483,033	47,533
Expenditures				
Public safety	370,687	365,434	331,795	(33,639)
Capital outlay	50,000	70,066	6,443	(63,623)
Total expenditures	420,687	435,500	338,238	(97,262)
Net change in fund balance	(26,687)	-	144,795	144,795
Fund balance, beginning of year	518,630	518,630	518,630	-
Fund balance, end of year	\$ 491,943	\$ 518,630	\$ 663,425	\$ 144,795

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL TAX RESERVE SPECIAL REVENUE FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	\$ -	\$ -	\$ 677,967	\$ 677,967
Other financing uses				
Transfers out	-	-	(151,174)	151,174
Net change in fund balance	-	-	526,793	526,793
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ 526,793	\$ 526,793

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL SHERIFF SPECIAL FORCES SPECIAL REVENUE FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under) Final Budget
Revenues				
Property taxes	\$ 475,000	\$ 459,000	\$ 458,985	\$ (15)
Interest	3,000	3,500	4,186	686
Other revenue	6,000	4,200	3,999	(201)
Total revenues	484,000	466,700	467,170	470
Expenditures				
Public safety	586,029	514,396	507,939	(6,457)
Revenues over (under) expenditures	(102,029)	(47,696)	(40,769)	6,927
Other financing sources				
Transfers in	56,072	47,696	-	(47,696)
Net change in fund balance	(45,957)	-	(40,769)	(40,769)
Fund balance, beginning of year	324,263	324,263	324,263	-
Fund balance, end of year	\$ 278,306	\$ 324,263	\$ 283,494	\$ (40,769)

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL HOUSING SPECIAL REVENUE FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under) Final Budget
Revenues				
Other revenue	\$ 30,000	\$ 56,000	\$ 35,853	\$ (20,147)
Expenditures				
Health and welfare	<u>30,000</u>	<u>56,000</u>	<u>55,934</u>	<u>(66)</u>
Net change in fund balance	-	-	(20,081)	(20,081)
Fund balance, beginning of year	<u>37,933</u>	<u>37,933</u>	<u>37,933</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 37,933</u></u>	<u><u>\$ 37,933</u></u>	<u><u>\$ 17,852</u></u>	<u><u>\$ (20,081)</u></u>

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY, MICHIGAN

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

DECEMBER 31, 2004

	<u>Unpledged</u>	<u>2003 Tax Levy</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 942,130	\$ 541,019	\$ 455,700	\$ 1,938,849
Receivables				
Accounts	-	-	380	380
Taxes receivable-delinquent	-	330,073	41,200	371,273
Interest	-	32,403	11,116	43,519
Due from other governments	-	2,014	378	2,392
Due from other funds	-	151,174	-	151,174
Total current assets	<u>942,130</u>	<u>1,056,683</u>	<u>508,774</u>	<u>2,507,587</u>
Long-term assets				
Advance to other funds	<u>1,576,412</u>	<u>-</u>	<u>-</u>	<u>1,576,412</u>
Total assets	<u>2,518,542</u>	<u>1,056,683</u>	<u>508,774</u>	<u>4,083,999</u>
Long term liabilities				
Advance from other funds	<u>-</u>	<u>1,038,356</u>	<u>-</u>	<u>1,038,356</u>
Net assets				
Unrestricted	<u><u>\$ 2,518,542</u></u>	<u><u>\$ 18,327</u></u>	<u><u>\$ 508,774</u></u>	<u><u>\$ 3,045,643</u></u>

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Unpledged</u>	<u>2003 Tax Levy</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
Operating revenues				
Charges for services	\$ 11	\$ 118,327	\$ 27,850	\$ 146,188
Operating expenses				
Other	<u>7,700</u>	<u>-</u>	<u>3,937</u>	<u>11,637</u>
Operating income (loss)	(7,689)	118,327	23,913	134,551
Nonoperating revenue				
Interest revenue	<u>967</u>	<u>-</u>	<u>24,555</u>	<u>25,522</u>
Income (loss) before transfers	(6,722)	118,327	48,468	160,073
Transfers				
Transfers in	60,462	-	890,789	951,251
Transfers out	<u>(890,789)</u>	<u>(100,000)</u>	<u>(458,719)</u>	<u>(1,449,508)</u>
Total transfers	<u>(830,327)</u>	<u>(100,000)</u>	<u>432,070</u>	<u>(498,257)</u>
Change in net assets	(837,049)	18,327	480,538	(338,184)
Net assets, beginning of year	<u>3,355,591</u>	<u>-</u>	<u>28,236</u>	<u>3,383,827</u>
Net assets, end of year	<u>\$ 2,518,542</u>	<u>\$ 18,327</u>	<u>\$ 508,774</u>	<u>\$ 3,045,643</u>

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY, MICHIGAN

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Unpledged	2003 Tax Levy	Other Enterprise Funds	Total
Cash flows from operating activities				
Cash receipts from customers	\$ -	\$ 708,283	\$ 358,367	\$ 1,066,650
Cash receipts from interest and penalties	42,530	83,910	37,238	163,678
Cash payments to other governmental agencies	-	(151,174)	(1,523)	(152,697)
Cash payments for delinquent tax rolls	-	(1,038,356)	-	(1,038,356)
Net cash provided by (used in) operating activities	42,530	(397,337)	394,082	39,275
Cash flows from non-capital financing activities				
Due from other funds	2,372,660	-	-	2,372,660
Due to other funds	-	1,038,356	(2,372,660)	(1,334,304)
Advance to other funds	(948,356)	-	-	(948,356)
Transfer in	60,462	-	890,789	951,251
Transfer out	(890,789)	(100,000)	(458,719)	(1,449,508)
Net cash provided by (used in) by non-capital financing activities	593,977	938,356	(1,940,590)	(408,257)
Cash flows from investing activities				
Interest received	967	-	24,555	25,522
Net increase (decrease) in cash and cash equivalents	637,474	541,019	(1,521,953)	(343,460)
Cash and cash equivalents, beginning of year	304,656	-	1,977,653	2,282,309
Cash and cash equivalents, end of year	\$ 942,130	\$ 541,019	\$ 455,700	\$ 1,938,849
Reconciliation of operating income (loss) to net cash provided by (used in) by operating activities				
Operating income (loss)	\$ (7,689)	\$ 118,327	\$ 23,913	\$ 134,551
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Changes in assets and liabilities				
Accounts receivable	-	-	198	198
Taxes receivables - delinquent	30,720	(330,073)	327,083	27,730
Interest receivable	19,499	(32,403)	37,238	24,334
Due from other governments	-	(151,174)	7,173	(144,001)
Due to other governments	-	(2,014)	(1,523)	(3,537)
Net cash provided by (used in) operating activities	\$ 42,530	\$ (397,337)	\$ 394,082	\$ 39,275

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS

DECEMBER 31, 2004

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	<u><u>\$ 661,863</u></u>
Liabilities	
Undistributed taxes	\$ 555,374
Undistributed collections	65,500
Court bonds payable	<u>40,989</u>
Total liabilities	<u><u>\$ 661,863</u></u>

The accompanying notes are an integral part of these financial statements.

MISSAUKEE COUNTY, MICHIGAN

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DECEMBER 31, 2004

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MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The County of Missaukee, Michigan (the “County”) was incorporated under the laws of the State of Michigan in 1871 and operates under an elected Commission form of government. The County is governed by an elected seven-member board. The County’s services, assistance and care include the (1) general County departments, boards and commissions; (2) court system administration; (3) law enforcement and corrections; (4) assistance and/or institutional care to the aged, needy, wards of the court and neglected children and public and mental health recipients; and (5) recreation.

The accounting policies of the County conform to generally accepted accounting principles as applicable to state and local governments. The following is a summary of the more significant accounting policies.

Reporting Entity

Generally accepted accounting principles requires all discrete component units be reported in the financial statements of the reporting entity. These financial statements exclude the Missaukee County Road Commission, a discrete component unit of the County. The discretely presented component units discussed below should be included in the County’s reporting entity because they are entities for which the government is considered to be financially accountable.

Missaukee County Road Commission - members of the governing board of the Road Commission are elected by County electors. Although the County does not have the authority to approve or modify the Road Commission's operational and capital budgets, bonded debt must be approved by the County Board of Commissioners. Generally accepted accounting principles requires the Road Commission to be reported in the financial statements of the reporting entity. This discretely presented component unit is excluded from the financial statements of the reporting entity.

District Health Department #10 - (the Health Department) is a municipal authority comprising Lake, Newaygo, Oceana, Missaukee, Mecosta, Manistee, Wexford, Crawford, Mason and Kalkaska Counties. It operates under an appointed Board of Health and provides services to its residents in the area of public health. The Health Department is considered a component unit under the oversight authority of the County of Missaukee. As such, it is an integral part of Missaukee County's reporting entity. The Department is audited and reported on as of September 30, for a twelve-month fiscal year.

Missaukee County Council on Aging - In 1999, the County of Missaukee and the District Health Department No. 10 entered into an intergovernmental agreement creating the Missaukee County Council on Aging (MCCOA) under the authority of PA 7 of 1967. The MCCOA is legally separate from the County and is governed by nine members, all of which are appointed by the Missaukee County Board of Commissioners. As of December 31, 2004, two (2) Commissioners from the County served on the MCCOA Board of Directors. The MCCOA provides activities and services to all persons 60 years or older residing in Missaukee County.

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Complete financial statements of the component units can be obtained as follows:

Missaukee County Road Commission
1199 N. Morey Road
Lake City, Michigan 49651

Missaukee County Council on Aging
111 South Canal
Lake City, Michigan 49651

District Health Department # 10
401 N. Lake Street
Cadillac, Michigan 49601

Regional Joint Operations

The County participates jointly in the operation of the North Central Community Mental Health Authority with Grand Traverse, Leelanau, Crawford, Roscommon and Wexford Counties. All financial operations of the Authority are recorded in Wexford County. The funding formula requires the County to provide approximately 3.5% of the local unit budget appropriation requirement, which amounted to \$35,272 for the year ended December 31, 2004.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for reimbursement based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Emergency Services Special Revenue Fund* accounts for a property tax millage, charges for services and expenditures of the County's ambulance and emergency medical services.

The *Tax Reserve Fund* accounts for the funding mechanism to serve as a substitute to County revenue sharing payments, which is the gradual shift of the County property tax levy.

The *Sheriff Special Forces Special Revenue Fund* accounts for the property tax millage and expenditures related to a voter approved millage to provide additional law enforcement services.

The *Housing Special Revenue Fund* accounts for the program income and revenue from the CDBG revolving loan fund started through federal grants received over several years.

The *Missaukee Sanitary Drainage District No. 2 Debt Service Fund* accounts for the resources accumulated from the local municipalities and payments made for principal and interest on long-term general obligation debt.

The *Capital Reserve Capital Project Fund* accounts for loans received from the delinquent tax revolving funds used to finance the jail expansion project.

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

The government reports the following major proprietary funds:

The *Unpledged Enterprise Fund* accounts for funds from 1998 and previous years delinquent tax collection activity.

The *2003 Tax Levy Enterprise Fund* accounts for funds paid to each local governmental unit, including the County General Fund, for their respective amount of taxes not collected as of March 1st from the 2003 tax levy. Financing for these purchases was provided by the collection of previous years delinquent property taxes by the County Treasurer.

Additionally, the government reports the following fund types:

The *agency funds* account for assets held for other governments in an agency capacity, specifically in the trust and agency fund, library penal fine fund, district court fund and inmate trust fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the delinquent tax revolving enterprise funds are interest and penalties on delinquent taxes. Operating expenses for enterprise funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted sources first, then unrestricted resources as they are needed.

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

D. Assets, liabilities and net assets or equity

1. Cash and Interest Bearing Deposits

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of pool shares.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans.) All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Loans and leases receivable of \$573,736 and \$965,800, respectively, are not expected to be collected within one year.

3. Taxes Receivable – Current

The County property tax is levied on each December 1st on the State equalized valuation of property located in the County as of the preceding December 31st. The property taxes become a lien on December 1 and are due in full on March 1 of the year following the levy. They are substantially collected and are recorded as revenues during the year following the levy.

Although the County's 2004 ad valorem tax is levied and collectible on December 1, 2004, it is the County's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for financing of the County's operations.

4. Delinquent Taxes Receivable

The delinquent taxes receivable, which are recorded in the enterprise funds, consist of unpaid balances of delinquent real property taxes which were purchased from all of the taxing units in Missaukee County by the County's delinquent tax funds.

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

5. *Leases Receivable*

The County has entered into various lease agreements with local governments to issue bonded debt and to manage the construction of water and sewer systems in those jurisdictions. These agreements generally terminate with the retirement of the related bond issues. Leases receivable are reported at an amount equal to the lesser of the actual bond-financed construction costs incurred to date or the outstanding bond principal. Annual lease payments under these agreements are equal to the related bond principal and interest due each year. At termination of a lease, title to the leased property is passed to the particular local governments.

Under the accrual basis of accounting and the provisions of FASB (Financial Accounting Standards Board) Statement No. 13, *Accounting for Leases*, the leases are classified as sales leases. As a result, leases receivable are recognized in the accompanying statement of net assets, whereas capital assets are not.

All lease agreements provide for the lessees to use, operate and maintain the systems, at their own expense, subject to the terms and conditions of the agreement.

6. *Prepaid items*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

7. *Assets held for sale*

Assets held for sale include property held by the County primarily real estate, which the County plans to sell in the near future.

8. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities and component unit columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Capital assets of the primary government and component units are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	40
Vehicles	7-25
Equipment	5-10
Infrastructure	5-50

9. *Deferred Revenue*

In the fund financial statements, governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. In the government-wide financial statements, as of December 31, 2004, unearned revenue in governmental activities consist of taxes receivable not yet earned in the amount of \$2,051,649, grant revenue received but not yet earned in the amount of \$7,325, and park fees received but not yet earned in the amount of \$33,215.

10. *Compensated Absences*

County employees are granted vacation hours on their anniversary date of hire. The number of hours is dependent upon years of service. Unused vacation hours are accrued at fiscal year-end. Employees are only allowed to carryover a maximum of 40 hours at their anniversary date.

Until 1998, sick leave hours were credited to each AFSCME union employee as earned during a calendar year. As of September 19, 1998 sick leave no longer existed and the sick leave accrued as of that date was multiplied by the employee's straight time rate of pay and placed in a "bank". Upon death or retirement the bank will be paid at one hundred percent. Since 1998, paid time off ("PTO") has replaced sick and vacation leave for AFSCME union employees.

All vacation and sick leave is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignation and retirements.

11. *Long-term obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bonds premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

12. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

During the November board meeting of each year the Board of Commissioners shall, by resolution, adopt the budget for the next fiscal year.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing board is the activity level, which is the level at which expenditures may not legally exceed appropriations. The County Administrator may make transfers of appropriations between departments within any funds; however any supplemental appropriations that amend the total expenditures of any fund require Board of Commissioner's resolution.

The following funds had excess of expenditures over appropriation at the legal level of budgetary control:

General Fund	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Circuit court	\$379,471	\$388,191	\$ 8,720
District court	109,726	110,022	276
Clerk/register of deeds	205,968	210,030	4,062
Equalization	158,936	163,700	4,764
Prosecuting attorney	229,792	233,913	4,121
Cooperative extension	64,322	64,883	561
Sheriff	274,114	282,888	8,774
Marine law enforcement	24,769	25,458	689
Road patrol	67,221	68,190	969
CJ training grant	4,500	4,827	327
Jail	650,636	668,547	17,911

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Planning commission	120,704	122,540	1,836
ORV enforcement	24,180	25,346	1,166
TNT grant match	32,900	33,289	389
Capital outlay	15,000	17,736	2,736

Special Revenue Funds

Enhanced E-911	63,200	67,681	4,481
Family independence agency	7,000	10,165	3,165
Child care	413,135	421,188	8,053
TNT forfeiture	152,000	159,593	7,593
Equipment grant	22,000	38,981	16,981
Tax reserve	-	151,174	151,174
Homestead audit	-	1,504	1,504

B. Deficit fund equity

For the year ended December 31, 2004, the Capital Reserve Capital Project Fund ended with a deficit unreserved fund balance of \$(538,056). In the Capital Reserve Capital Project Fund significant expenditures were incurred by the fund for the jail expansion project, which were paid via long-term advances from the County's Delinquent Tax Collection Funds. The deficit fund balance will be eliminated as future jail related revenue are collected.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Board of Commissioners has designated five banks for the deposit of County funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, interest bearing savings and checking accounts, repurchase agreements, bankers' acceptance of United States banks, federal agency instruments, money market funds with a net asset value of \$1.00 per share, commercial paper within the two highest classifications and negotiable and non-negotiable certificates of deposits, but not the remainder of State statutory authority as listed above.

The County's deposits and investment policy are in accordance with statutory authority.

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Cash and cash equivalents are reported in the financial statements as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and cash equivalents	<u>\$ 1,549,020</u>	<u>\$ 1,938,849</u>	<u>\$ 661,863</u>	<u>\$ 4,149,732</u>	<u>\$ 917,560</u>

For purpose of deposit and investment footnote presentation, a reconciliation to cash and cash equivalents is as follows:

Deposits	3,433,618
Cash on hand	11,219
Investments	<u>1,622,455</u>
Total	<u>\$ 5,067,292</u>

The difference between Health Department component unit cash and cash equivalents reported at September 30, 2004 and cash held by the treasurer on behalf of the Health Department at December 31, 2004 is \$ (492,212).

The bank balance of the government's deposits held by the County Treasurer including the component units is \$2,698,516. Of the bank balance, \$202,988 was covered by federal depository insurance. The remaining balance of \$2,495,528 was uninsured and uncollateralized.

Investments of \$1,622,455 consist of shares of government pooled investment funds held at Fifth Third Bank, which are uncategorized as to risk.

B. Capital assets

Capital assets activity for the year ended December 31, 2004 was as follows:

Primary government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Ending Balance</u>
Governmental activities			
Capital assets not being			
Depreciated –			
Land	<u>\$ 311,853</u>	<u>\$ 41,570</u>	<u>\$ 353,423</u>
Capital assets being depreciated			
Buildings	3,203,350	30,308	3,233,658
Equipment	708,033	60,259	768,292
Vehicles	<u>375,519</u>	<u>24,866</u>	<u>400,385</u>
Total capital assets being depreciated	<u>4,286,902</u>	<u>115,433</u>	<u>4,402,335</u>

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Less accumulated depreciation for			
Buildings	947,431	72,312	1,019,743
Equipment	457,163	120,900	578,063
Vehicles	<u>276,387</u>	<u>59,818</u>	<u>336,205</u>
Total accumulated depreciation	<u>1,680,981</u>	<u>253,030</u>	<u>1,934,011</u>
Total capital assets being depreciated, net	<u>2,605,921</u>	<u>(137,597)</u>	<u>2,468,324</u>
Governmental activities capital assets, net	<u>\$ 2,917,774</u>	<u>\$ (96,027)</u>	<u>\$ 2,821,747</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
Judicial	\$ 4,122
General government	71,108
Public safety	157,901
Recreation and cultural	<u>19,899</u>
Total depreciation expense – governmental activities	<u>\$ 253,030</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Ending Balance</u>
Health Department			
Capital assets being depreciated			
Equipment	398,620	285,448	684,068
Less accumulated depreciation	<u>142,829</u>	<u>(155,303)</u>	<u>298,129</u>
Total capital assets being depreciated	<u>\$ 255,794</u>	<u>\$ 130,145</u>	<u>\$ 385,939</u>

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

C. Interfund receivables, payables and transfers

The composition of interfund transfers is as follows:

<u>Due to other funds</u>	<u>Due from other funds</u>			<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>2003 Tax Levy</u>	
General fund	\$ -	\$ 356	\$ 151,174	\$ 151,530
Nonmajor governmental funds	<u>161,275</u>	<u>30,054</u>	<u>-</u>	<u>191,329</u>
Total	<u>\$ 161,275</u>	<u>\$ 30,410</u>	<u>\$ 151,174</u>	<u>\$ 342,859</u>

Interfund receivables and payables are established to cover cash deficits and short-term financing of certain operations.

The long-term interfund receivable and payable classified as advance to and advance from other funds is between the Unpledged Enterprise Fund and the Capital Reserve Capital Project Fund and the Unpledged Enterprise Fund and the 2003 Delinquent Tax Fund. The Unpledged Enterprise Fund loaned the Capital Reserve Capital Project Fund \$538,056 to finance the jail expansion project, and the Unpledged Enterprise Fund loaned the 2003 Delinquent Tax Fund \$1,038,356 to purchase delinquent taxes from local municipalities.

The composition of interfund transfers is as follows:

<u>Transfers Out</u>	<u>Transfers In</u>					<u>Total</u>
	<u>Unpledged</u>	<u>General Fund</u>	<u>Capital Reserve</u>	<u>Non Major Gov't Funds</u>	<u>Non Major Business Type Funds</u>	
General fund	\$55,462	\$ -	\$ 57,498	\$ 24,772	\$151,268	\$ 289,000
Non-major governmental funds	-	-	-	57,690	168,484	246,174
Unpledged fund	-	419,575	-	113,968	357,246	890,789
Non-major business type funds	-	229,856	37,502	97,570	93,791	458,719
Capital reserve fund	5,000	-	-	-	-	5,000
2003 tax levy	-	-	-	-	100,000	100,000
Total	<u>\$60,462</u>	<u>\$ 649,431</u>	<u>\$ 95,000</u>	<u>\$294,000</u>	<u>\$890,789</u>	<u>\$1,989,682</u>

Interfund transfers are for subsidizing funds expenditures and using unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and to close the net assets of 1999 Tax Levy Enterprise Fund into the Unpledged Enterprise Fund.

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

D. Long-term debt

Primary government

The following is a summary of primary government long-term debt transactions for the year ended December 31, 2004:

	<u>Primary Government</u>		
	<u>Governmental Activities General Obligation Debt</u>	<u>Governmental Activities Note Payable</u>	<u>Governmental Activities Compensated Absences</u>
Long-Term Debt at January 1, 2004	\$ 1,293,200	\$ 8,895	\$ 74,395
Additions	-	-	95,600
Reductions	<u>317,400</u>	<u>4,649</u>	<u>74,251</u>
Long-Term Debt at December 31, 2004	<u>\$ 975,800</u>	<u>\$ 4,246</u>	<u>\$ 95,744</u>
Due Within One Year	<u>\$ 10,000</u>	<u>\$ 4,246</u>	<u>\$ 1,915</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

General Obligation Debt consists of general obligation bonds of the Department of Public Works and an installment purchase note payable for the purchase of equipment. Department of Public Works bonds are for Township and City sewer disposal systems. The bonds are direct obligations of the respective Township or City and an indirect obligation of the County.

<u>General Obligation Debt Description</u>	<u>Balance Interest Rates</u>	<u>Maturing Year</u>	<u>Outstanding at 12/31/04</u>
McBain Sanitary Sewer Bonds 1979	5%	2011	\$ 74,000
Missaukee Sanitary Drainage District No. 2 Drain Bonds – 1993	4.2 – 7.0%	2011	810,000
M-66 Branch Sanitary Drain Series notes – 1996	5.5%	2006	1,800
Missaukee Sanitary Drain No. 1 & Branches Drainage District Drain Bonds – 1997	5.3%	2007	<u>90,000</u>
			<u>\$ 975,800</u>

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Annual debt service requirements for the primary government's general obligation debt are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 10,000	\$ 3,200	\$ 13,200
2006	57,800	6,365	64,165
2007	56,000	3,342	59,342
2008	127,000	39,225	166,225
2009	237,000	30,125	267,125
2010-2011	<u>488,000</u>	<u>23,900</u>	<u>511,900</u>
Total	<u>\$ 975,800</u>	<u>\$ 106,157</u>	<u>\$1,081,957</u>

Interest expense in governmental activities is \$66,420 and is reported within the public works function.

Annual debt service requirements for the primary government's note payable is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 4,246	\$ 164	\$ 4,410

Discretely Presented Component Units

Changes in the District Health Department No. 10 discrete component unit's long-term debt are as follows:

	<u>Balance 10/01/03</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance 9/30/04</u>
District Health Department				
No. 10 - Compensated absences	<u>\$426,189</u>	<u>\$ 14,616</u>	<u>\$ -</u>	<u>\$ 440,805</u>

E. Reserved Fund Balances

	<u>General Fund</u>	<u>Nonmajor Special Revenue TNT Forfeiture</u>	<u>Nonmajor Drain Notes M-66 Branch Sanitary Drain Series 1966</u>	<u>Nonmajor Capital Project Courthouse Expansion</u>	<u>Total</u>
Prepaid items	\$ 54,101	\$ -	\$ -	\$ -	\$ 54,101
TNT operations	-	247,828	-	-	247,828
Debt service	-	-	163	-	163
Capital projects	-	-	-	49,247	49,247
Total	<u>\$ 54,101</u>	<u>\$ 247,828</u>	<u>\$ 163</u>	<u>\$ 49,247</u>	<u>\$ 351,339</u>

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

IV. OTHER INFORMATION

A. Risk management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County carries commercial insurance for general liability, workers compensation and health insurance risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Contingencies

There are lawsuits pending in which the County is involved. The County estimates that the potential claims against the County not covered by insurance resulting from such litigation would not materially affect the financial statements of the County.

The County participates in a number of Federal and State assisted grant programs, which are subject to financial and compliance audits. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County expects such amounts if any, to be immaterial.

C. Property taxes

The government's property taxes are levied each December 1 on the taxable valuation of property located in the County as of the succeeding December 31, the lien date. Property taxes are payable without penalty and interest through February 28 of the succeeding year; as of March 1, unpaid real property taxes are sold to and collected by Missaukee County delinquent tax revolving funds.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value. Real and personal property in the County for the 2004 levy were assessed and equalized at \$394,911,300, representing 50 percent of estimated current market value. The government's tax millages are as follows:

General operating	4.5572 mills
Emergency services	.4861 mills
Sheriff special forces	1.2156 mills
Council on aging	.4941 mills

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

D. Pension Plans

Primary Government Defined Contribution Plan

The County participates in the Missaukee County defined contribution pension plan covering approximately half of the County's employees. The plan is administered by Nationwide Life Insurance. A defined contribution pension plan provides pension benefits in return for services rendered; provides an individual account for each participant and specifies how contributions to the individuals' account are to be determined instead of specifying the amount of benefits the individual is to receive. Such benefits depend solely on the amount of those contributions, and forfeitures of other participant's benefits prior to vesting. Contributions to the plan are made by the County based upon a percent of employees base salaries, which ranges from 0 to 8 percent depending on years of service. The County contributed \$42,891 to the plan on behalf of eligible employees. Employees do not contribute to the plan. Plan provisions and contribution requirements are established and may be amended by the County Board of Commissioners.

Defined Benefit Plan

Plan Description. The County participates in a defined benefit pension plan that provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The County participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's collective bargaining unit and personnel policy, which does not require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate: the rate set for the year ended December 31, 2004 is based on the December 31, 2002 actuarial valuation, and as a percent of payroll was 9.01 percent for elected officials and 10.4% for the sheriff's department.

Annual Pension Cost

During the fiscal year ended December 31, 2004, the County's annual pension cost and actual contributions totaling \$89,484 were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2002. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years on an open basis. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his/her projected benefit. Significant actuarial assumptions used

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity and promotional salary increases. The latest actuarial valuation of the Plan was December 31, 2003.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/02	\$ 68,935	100 %	\$ -
12/31/03	92,386	100	-
12/31/04	89,484	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/01	\$ 942,143	\$1,254,723	\$ 312,580	75%	\$ 787,979	40%
12/31/02	1,145,382	1,734,825	589,443	66%	826,255	71%
12/31/03	1,353,330	2,489,643	1,136,313	54%	883,972	128%

District Health Department No. 10 - Discretely Presented Component Unit

Defined benefit pension plan

Plan Description

The Health Department participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan administered by the MERS retirement board, that covers all employees of the Health Department employed prior to October 1, 1997. The system provides retirement, disability and death benefits to plan members and their beneficiaries. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the Health Department at P.O. Box 8305, White Cloud, Michigan, 49349.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Health Department Board.

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Annual Pension Cost

For the year ended September 30, 2004, the Health Department's annual pension cost of \$493,058 for the plan was equal to the Health Department's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2.5 percent per year cost of living adjustments. Both (a) and (b) included an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 36 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/01	\$ 466,652	100 %	-
12/31/02	788,759	100	-
12/31/03	493,058	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/01	\$11,306,184	\$15,678,022	\$4,371,838	72%	\$2,415,783	181%
12/31/02	11,462,656	17,007,103	5,544,447	67%	2,304,042	241%
12/31/03	12,082,251	18,453,157	6,370,906	65%	2,000,396	318%

Defined contribution plan

The Health Department provides pension benefits to all of its full-time employees employed on or after October 1, 1998 through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Health Department Board, the Health Department contributes 5 percent of employees' gross earnings and employees contribute up to 3 percent of earnings. The Health Department also matches the employee contribution. In accordance with these requirements, the Health Department contributed \$271,683 during the current year, and employees contributed \$108,552.

MISSAUKEE COUNTY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

E. Operating leases – District Health Department No. 10 – Discretely Presented Component Unit

The Health department conducts a substantial portion of its operations in facilities rented under agreements classified as operating leases. Rental expenses under these leases for the period ended September 30, 2004 was \$1,174,226.

The following is a schedule by years of minimum future rentals on non-cancelable leases in excess of one year as of September 30, 2004:

<u>Year</u>	<u>Amount</u>
2005	\$ 1,156,373
2006	29,256
2007	29,256
2008	29,256
2009	29,256
2009 and thereafter	<u>251,114</u>
Total	<u>\$ 1,524,511</u>

F. Prior period adjustment

Beginning net asset in the governmental activities increased \$407,582 because of unaccounted CDBG loans receivable not recorded in prior years. There was no affect in the governmental fund statements because the loans receivable are offset by deferred revenue.

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SUPPLEMENTARY INFORMATION

MISSAUKEE COUNTY, MICHIGAN

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2004

	Special Revenue Funds	Debt Service Funds	Capital Projects Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 637,957	\$ 163	\$ 49,247	\$ 687,367
Receivables				
Taxes	-	-	-	-
Lease	-	165,800	-	165,800
Due from other funds	30,410	-	-	30,410
Due from other governments	127,535	-	-	127,535
Assets held for sale	159,179	-	-	159,179
Total assets	\$ 955,081	\$ 165,963	\$ 49,247	\$ 1,170,291
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 122,235	\$ -	\$ -	\$ 122,235
Accrued liabilities	4,363	-	-	4,363
Due to other funds	40,155	-	-	40,155
Deferred revenue	40,540	165,800	-	206,340
Total liabilities	207,293	165,800	-	373,093
Fund balances				
Reserved	247,828	163	49,247	297,238
Unreserved				
Designated for subsequent years expenditures	27,407	-	-	27,407
Undesignated	472,553	-	-	472,553
Total fund balances	747,788	163	49,247	797,198
Total liabilities and fund balances	\$ 955,081	\$ 165,963	\$ 49,247	\$ 1,170,291

MISSAUKEE COUNTY, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Special Revenue Funds	Debt Service Funds	Capital Projects Fund	Total Nonmajor Governmental Funds
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental				
Federal	402,653	-	-	402,653
State	169,524	-	-	169,524
Local	391,641	169,965	-	561,606
Charges for services	432,321	-	-	432,321
Fines and forfeitures	267,034	-	-	267,034
Interest	9,124	20	487	9,631
Other revenue	7,811	-	-	7,811
Total revenues	1,680,108	169,985	487	1,850,580
Expenditures				
Current expenditures				
Judicial	9,272	-	-	9,272
General government	29,118	-	-	29,118
Public safety	853,278	-	-	853,278
Health and welfare	566,168	-	-	566,168
Recreation and cultural	150,325	-	-	150,325
Debt service				
Principal	-	167,400	-	167,400
Interest and fiscal charges	-	18,467	-	18,467
Capital outlay	98,906	-	41,960	140,866
Total expenditures	1,707,067	185,867	41,960	1,934,894
Revenues over (under) expenditures	(26,959)	(15,882)	(41,473)	(84,314)
Other financing sources (uses)				
Transfers in	284,000	-	10,000	294,000
Transfers out	(95,000)	-	-	(95,000)
Total other financing sources (uses)	189,000	-	10,000	199,000
Net change in fund balances	162,041	(15,882)	(31,473)	114,686
Fund balances, beginning of year	585,747	16,045	80,720	682,512
Fund balances, end of year	\$ 747,788	\$ 163	\$ 49,247	\$ 797,198

MISSAUKEE COUNTY, MICHIGAN

COMBINING BALANCE SHEET NONMAJOR SPECIAL REVENUE FUNDS

DECEMBER 31, 2004

	County Park	County Building Department	Friend of the Court
Assets			
Cash and cash equivalents	\$ 106,484	\$ 22,214	\$ 398
Taxes receivable	-	-	-
Due from other funds	-	-	-
Due from other governments	-	-	-
Assets held for sale	-	-	-
Total assets	\$ 106,484	\$ 22,214	\$ 398
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 99	\$ -	\$ -
Accrued liabilities	694	1,222	-
Due to other funds	-	11,110	-
Deferred revenue	33,215	-	-
Total liabilities	34,008	12,332	-
Fund balances			
Reserved	-	-	-
Unreserved			
Designated for subsequent years expenditures	-	-	-
Undesignated	72,476	9,882	398
Total fund balances	72,476	9,882	398
Total liabilities and fund balances	\$ 106,484	\$ 22,214	\$ 398

Public Improvement	Jail Expansion	Trial Court Improvement	Automation Fund	Law Library	Enhanced E-911
\$ 3,307	\$ 12,986	\$ 4,929	\$ 1,369	\$ 143	\$ 186,602
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	21,267
-	-	-	-	-	-
\$ 3,307	\$ 12,986	\$ 4,929	\$ 1,369	\$ 143	\$ 207,869
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,130
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	21,130
-	-	-	-	-	-
3,307	-	-	-	-	-
-	12,986	4,929	1,369	143	186,739
3,307	12,986	4,929	1,369	143	186,739
\$ 3,307	\$ 12,986	\$ 4,929	\$ 1,369	\$ 143	\$ 207,869

Continued.....

MISSAUKEE COUNTY, MICHIGAN

COMBINING BALANCE SHEET NONMAJOR SPECIAL REVENUE FUNDS

DECEMBER 31, 2004

	Family Independence Agency	Juvenile Justice- Basic Grant	Child Care
Assets			
Cash and cash equivalents	\$ 11,427	\$ 4,540	\$ 40,088
Taxes receivable	-	-	-
Due from other funds	-	-	-
Due from other governments	-	-	13,387
Assets held for sale	-	-	-
Total assets	\$ 11,427	\$ 4,540	\$ 53,475
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ -	\$ -	\$ 20,376
Accrued liabilities	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
Total liabilities	-	-	20,376
Fund balances			
Reserved	-	-	-
Unreserved			
Designated for subsequent years expenditures	-	-	-
Undesignated	11,427	4,540	33,099
Total fund balances	11,427	4,540	33,099
Total liabilities and fund balances	\$ 11,427	\$ 4,540	\$ 53,475

Veterans Trust	Oil and Gas	Local Emergency Planning	Housing Rehab Program	TNT Forfeiture	04-05 TNT
\$ 7,339	\$ 7,059	\$ 3,044	\$ -	\$ 78,390	\$ -
-	-	-	-	-	-
-	11,110	-	-	18,944	-
-	-	-	18,240	-	34,610
-	-	-	-	159,179	-
\$ 7,339	\$ 18,169	\$ 3,044	\$ 18,240	\$ 256,513	\$ 34,610
\$ -	\$ -	\$ -	\$ 18,240	\$ 6,835	\$ 25,588
-	-	-	-	1,850	-
-	-	-	-	-	1,697
-	-	-	-	-	7,325
-	-	-	18,240	8,685	34,610
-	-	-	-	247,828	-
-	8,900	-	-	-	-
7,339	9,269	3,044	-	-	-
7,339	18,169	3,044	-	247,828	-
\$ 7,339	\$ 18,169	\$ 3,044	\$ 18,240	\$ 256,513	\$ 34,610

Continued.....

MISSAUKEE COUNTY, MICHIGAN

COMBINING BALANCE SHEET NONMAJOR SPECIAL REVENUE FUNDS

DECEMBER 31, 2004

	03-04 TNT	School Resource Officer	Equipment Grant
Assets			
Cash and cash equivalents	\$ 17,211	\$ 18,457	\$ -
Taxes receivable	-	-	-
Due from other funds	356	-	-
Due from other governments	30,494	-	9,537
Assets held for sale	-	-	-
Total assets	\$ 48,061	\$ 18,457	\$ 9,537
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 29,967	\$ -	\$ -
Accrued liabilities	-	597	-
Due to other funds	18,094	-	9,254
Deferred revenue	-	-	-
Total liabilities	48,061	597	9,254
Fund balances			
Reserved	-	-	-
Unreserved			
Designated for subsequent years expenditures	-	15,200	-
Undesignated	-	2,660	283
Total fund balances	-	17,860	283
Total liabilities and fund balances	\$ 48,061	\$ 18,457	\$ 9,537

Lake Level	Public Safety	Homestead Audit	Total
\$ 107,886	\$ 2,696	\$ 1,388	\$ 637,957
-	-	-	-
-	-	-	30,410
-	-	-	127,535
-	-	-	159,179
\$ 107,886	\$ 2,696	\$ 1,388	\$ 955,081

\$ -	\$ -	\$ -	\$ 122,235
-	-	-	4,363
-	-	-	40,155
-	-	-	40,540
-	-	-	207,293
-	-	-	247,828
-	-	-	27,407
107,886	2,696	1,388	472,553
107,886	2,696	1,388	747,788
\$ 107,886	\$ 2,696	\$ 1,388	\$ 955,081

Concluded

MISSAUKEE COUNTY, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	County Park	County Building Department	Friend of the Court
Revenues			
Property taxes	\$ -	\$ -	\$ -
Intergovernmental			
Federal	-	-	-
State	-	-	-
Local	-	-	421
Charges for services	202,319	90,743	-
Fines and forfeitures	-	-	-
Interest	1,083	151	-
Other revenue	5,000	-	-
Total revenues	208,402	90,894	421
Expenditures			
Judicial	-	-	2,907
General government	-	-	-
Public safety	-	91,360	-
Health and welfare	-	-	-
Recreation and cultural	150,325	-	-
Capital outlay	35,752	-	-
Total expenditures	186,077	91,360	2,907
Revenues over (under) expenditures	22,325	(466)	(2,486)
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	22,325	(466)	(2,486)
Fund balances, beginning of year	50,151	10,348	2,884
Fund balances, end of year	\$ 72,476	\$ 9,882	\$ 398

Public Improvement	Jail Expansion	Trial Court Improvement	Automation Fund	Law Library	Enhanced E-911
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	82,706
-	-	-	-	-	-
-	94,642	14,730	26,977	-	214
-	-	-	-	2,501	-
123	210	38	107	-	1,574
-	-	-	-	-	-
123	94,852	14,768	27,084	2,501	84,494
-	-	-	-	6,365	-
-	-	-	27,614	-	-
-	-	-	-	-	67,681
-	-	-	-	-	-
-	-	-	-	-	-
16,720	-	5,453	2,000	-	-
16,720	-	5,453	29,614	6,365	67,681
(16,597)	94,852	9,315	(2,530)	(3,864)	16,813
10,000	-	-	-	4,000	-
-	(90,000)	(5,000)	-	-	-
10,000	(90,000)	(5,000)	-	4,000	-
(6,597)	4,852	4,315	(2,530)	136	16,813
9,904	8,134	614	3,899	7	169,926
\$ 3,307	\$ 12,986	\$ 4,929	\$ 1,369	\$ 143	\$ 186,739

Continued.....

MISSAUKEE COUNTY, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Family Independence Agency	Juvenile Justice- Basic Grant	Child Care
Revenues			
Property taxes	\$ -	\$ -	\$ -
Intergovernmental			
Federal	-	-	-
State	-	11,330	71,645
Local	-	-	112,443
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Interest	-	-	-
Other revenue	-	-	-
Total revenues	-	11,330	184,088
Expenditures			
Judicial	-	-	-
General government	-	-	-
Public safety	-	-	-
Health and welfare	10,165	12,650	421,188
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Total expenditures	10,165	12,650	421,188
Revenues over (under) expenditures	(10,165)	(1,320)	(237,100)
Other financing sources (uses)			
Transfers in	5,000	-	250,000
Transfers out	-	-	-
Total other financing sources (uses)	5,000	-	250,000
Net change in fund balances	(5,165)	(1,320)	12,900
Fund balances, beginning of year	16,592	5,860	20,199
Fund balances, end of year	\$ 11,427	\$ 4,540	\$ 33,099

Continued.....

Veterans Trust	Oil and Gas	Local Emergency Planning	Housing Rehab Program	TNT Forfeiture	04-05 TNT
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	2,008	104,957	-	60,891
3,843	-	-	-	-	-
-	-	-	-	17,588	61,165
-	-	-	-	-	-
-	-	-	-	264,533	-
-	84	-	-	2,353	-
-	2,350	461	-	-	-
3,843	2,434	2,469	104,957	284,474	122,056
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	159,593	122,056
3,104	11,525	1,243	104,957	-	-
-	-	-	-	-	-
-	-	-	-	-	-
3,104	11,525	1,243	104,957	159,593	122,056
739	(9,091)	1,226	-	124,881	-
-	15,000	-	-	-	-
-	-	-	-	-	-
-	15,000	-	-	-	-
739	5,909	1,226	-	124,881	-
6,600	12,260	1,818	-	122,947	-
\$ 7,339	\$ 18,169	\$ 3,044	\$ -	\$ 247,828	\$ -

Continued.....

MISSAUKEE COUNTY, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2004

	03-04 TNT	School Resource Officer	Equipment Grant
Revenues			
Property taxes	\$ -	\$ -	\$ -
Intergovernmental			
Federal	182,776	13,228	38,793
State	-	-	-
Local	188,724	11,300	-
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Interest	-	19	-
Other revenue	-	-	-
Total revenues	371,500	24,547	38,793
Expenditures			
Judicial	-	-	-
General government	-	-	-
Public safety	371,500	41,088	-
Health and welfare	-	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	38,981
Total expenditures	371,500	41,088	38,981
Revenues over (under) expenditures	-	(16,541)	(188)
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	-	(16,541)	(188)
Fund balances, beginning of year	-	34,401	471
Fund balances, end of year	\$ -	\$ 17,860	\$ 283

Lake Level	Public Safety	Homestead Audit	Total
\$ -	\$ -	\$ -	\$ -
-	-	-	402,653
-	-	-	169,524
-	-	-	391,641
-	2,696	-	432,321
-	-	-	267,034
490	-	2,892	9,124
-	-	-	7,811
490	2,696	2,892	1,680,108
-	-	-	9,272
-	-	1,504	29,118
-	-	-	853,278
1,336	-	-	566,168
-	-	-	150,325
-	-	-	98,906
1,336	-	1,504	1,707,067
(846)	2,696	1,388	(26,959)
-	-	-	284,000
-	-	-	(95,000)
-	-	-	189,000
(846)	2,696	1,388	162,041
108,732	-	-	585,747
\$ 107,886	\$ 2,696	\$ 1,388	\$ 747,788

Concluded

MISSAUKEE COUNTY, MICHIGAN

COMBINING BALANCE SHEET NONMAJOR DEBT SERVICE FUNDS

DECEMBER 31, 2004

	McBain Sanitary Sewer	Lake Twp Sewer Extension Bond - 1992	Drain Notes M-66 Branch Sanitary Drain Series - 1996
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and cash equivalents	\$ -	\$ -	\$ 163
Lease receivable	<u> 74,000</u>	<u> -</u>	<u> 1,800</u>
Total assets	<u>\$ 74,000</u>	<u>\$ -</u>	<u>\$ 1,963</u>
Liabilities			
Deferred revenue	\$ 74,000	\$ -	\$ 1,800
Fund Balances			
Reserved	<u> -</u>	<u> -</u>	<u> 163</u>
Total liabilities and fund balance	<u>\$ 74,000</u>	<u>\$ -</u>	<u>\$ 1,963</u>

Missaukee Sanitary Drain No. 1 Series - 1997	Total
\$ - 90,000	\$ 163 165,800
\$ 90,000	\$ 165,963
\$ 90,000	\$ 165,800
-	163
\$ 90,000	\$ 165,963

MISSAUKEE COUNTY, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR DEBT SERVICE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	McBain Sanitary Sewer	Lake Twp Sewer Extension Bond - 1992	Drain Notes M-66 Branch Sanitary Drain Series - 1996
Revenues			
Local	\$ 13,950	\$ 63,075	\$ 5,722
Interest	-	-	15
Total revenues	13,950	63,075	5,737
Expenditures			
Debt Service			
Principal	10,000	60,000	17,400
Interest and fiscal charges	3,950	3,075	578
Total expenditures	13,950	63,075	17,978
Net change in fund balances	-	-	(12,241)
Fund balances, beginning of year	-	-	12,404
Fund balances, end of year	\$ -	\$ -	\$ 163

Missaukee Sanitary Drain No. 1 Series - 1997	Total
\$ 87,218	\$ 169,965
5	20
87,223	169,985
80,000	167,400
10,864	18,467
90,864	185,867
(3,641)	(15,882)
3,641	16,045
\$ -	\$ 163

MISSAUKEE COUNTY, MICHIGAN

STATEMENT OF NET ASSETS NONMAJOR ENTERPRISE FUNDS

DECEMBER 31, 2004

	Tax		
	<u>Reserve Fund</u>	<u>1999 Levy</u>	<u>2000 Levy</u>
Current assets			
Cash and cash equivalents	\$ 400,242	\$ -	\$ 3,817
Receivables			
Accounts	-	-	-
Taxes receivable-delinquent	-	-	266
Interest	-	-	188
Due from other governments	<u>-</u>	<u>-</u>	<u>-</u>
Total assets, all current (equal to net assets, unrestricted)	<u><u>\$ 400,242</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,271</u></u>

<u>2001 Levy</u>	<u>2002 Levy</u>	<u>Total</u>
\$ 11,375	\$ 40,266	\$ 455,700
-	380	380
1,742	39,192	41,200
140	10,788	11,116
92	286	378
<u>\$ 13,349</u>	<u>\$ 90,912</u>	<u>\$ 508,774</u>

MISSAUKEE COUNTY, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Tax		
	Reserve Fund	1999 Levy	2000 Levy
Operating revenues			
Charges for services	\$ -	\$ -	\$ 102
Operating expenses			
Other	-	1,839	2,098
Operating income (loss)	-	(1,839)	(1,996)
Nonoperating revenue			
Interest	242	134	20
Operating income (loss) before transfers	242	(1,705)	(1,976)
Transfers			
Transfers in	400,000	-	-
Transfers out	-	(60,462)	-
Total transfers	400,000	(60,462)	-
Change in net assets	400,242	(62,167)	(1,976)
Net assets, beginning of year	-	62,167	6,247
Net assets, end of year	\$ 400,242	\$ -	\$ 4,271

<u>2001 Levy</u>	<u>2002 Levy</u>	<u>Total</u>
\$ 1,314	\$ 26,434	\$ 27,850
-	-	3,937
1,314	26,434	23,913
10,421	13,738	24,555
11,735	40,172	48,468
160,000	330,789	890,789
-	(398,257)	(458,719)
160,000	(67,468)	432,070
171,735	(27,296)	480,538
(158,386)	118,208	28,236
\$ 13,349	\$ 90,912	\$ 508,774

MISSAUKEE COUNTY, MICHIGAN

COMBINING STATEMENT OF CASH FLOWS NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Tax Reserve Fund	1999 Levy	2000 Levy
Cash flows from operating activities			
Cash receipts from customers	\$ -	\$ 1,468	\$ 5,290
Cash receipts from interest and penalties	-	3,268	3,088
Cash payments to other governmental agencies	-	(396)	(637)
Net cash provided by operating activities	-	4,340	7,741
Cash flows from non-capital financing activities			
Due to other funds	-	-	(17,000)
Transfer in	400,000		
Transfer out	-	(60,462)	-
Net cash provided (used in) non-capital financing activities	400,000	(60,462)	(17,000)
Cash flows from investing activities			
Interest received	242	134	20
Net increase (decrease) in cash and cash equivalents	400,242	(55,988)	(9,239)
Cash and cash equivalents, beginning of year	-	55,988	13,056
Cash and cash equivalents, end of year	\$ 400,242	\$ -	\$ 3,817
Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	\$ -	\$ (1,839)	\$ (1,996)
Adjustments to reconcile operating income (loss) to net cash from operating activities			
Changes in assets and liabilities			
Accounts receivable	-	-	272
Taxes receivable - delinquent	-	3,307	5,972
Interest receivable	-	3,268	3,088
Due from other governmental units	-	-	1,042
Due to other governmental units	-	(396)	(637)
Net cash provided by operating activities	\$ -	\$ 4,340	\$ 7,741

<u>2001 Levy</u>	<u>2002 Levy</u>	<u>Total</u>
\$ 26,856	\$ 324,753	\$ 358,367
8,243	22,639	37,238
(490)	-	(1,523)

34,609	347,392	394,082
---------------	----------------	----------------

(986,515)	(1,369,145)	(2,372,660)
160,000	330,789	890,789
	(398,257)	(458,719)

(826,515)	(1,436,613)	(1,940,590)
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10,421	13,738	24,555
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(781,485)	(1,075,483)	(1,521,953)
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792,860	1,115,749	1,977,653
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\$ 11,375	\$ 40,266	\$ 455,700
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\$ 1,314	\$ 26,434	\$ 23,913
----------	-----------	-----------

306	(380)	198
23,173	294,631	327,083
8,243	22,639	37,238
2,063	4,068	7,173
(490)	-	(1,523)

\$ 34,609	\$ 347,392	\$ 394,082
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MISSAUKEE COUNTY, MICHIGAN

**COMBINING BALANCE SHEET
TRUST AND AGENCY FUNDS**

DECEMBER 31, 2004

	Trust and Agency	Library Fines	Inmate Trust	District Court Trust	Total
Assets					
Cash and cash equivalents	<u><u>\$ 602,414</u></u>	<u><u>\$ 36,186</u></u>	<u><u>\$ 17,160</u></u>	<u><u>\$ 6,103</u></u>	<u><u>\$ 661,863</u></u>
Liabilities					
Undistributed taxes	\$ 555,374	\$ -	\$ -	\$ -	\$ 555,374
Undistributed collections	6,051	36,186	17,160	6,103	65,500
Court bonds payable	<u>40,989</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,989</u>
Total liabilities	<u><u>\$ 602,414</u></u>	<u><u>\$ 36,186</u></u>	<u><u>\$ 17,160</u></u>	<u><u>\$ 6,103</u></u>	<u><u>\$ 661,863</u></u>

MISSAUKEE COUNTY, MICHIGAN

**BALANCE SHEET
COUNCIL ON AGING
COMPONENT UNIT**

DECEMBER 31, 2004

	<u>Council on Aging</u>
Assets	
Cash and cash equivalents	\$ 60,337
Receivables	
Accounts	19,653
Taxes	<u>199,461</u>
Total assets	<u>\$ 279,451</u>
 Liabilities and fund balance	
Liabilities	
Accounts payable	\$ 7,112
Accrued wages	1,273
Deferred revenue	<u>199,461</u>
Total liabilities	<u>207,846</u>
 Fund balance	
Fund balances	
Unreserved	
Undesignated	<u>71,605</u>
Total fund balance	<u>71,605</u>
 Total liabilities and fund balance	<u>\$ 279,451</u>

MISSAUKEE COUNTY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
COUNCIL ON AGING
COMPONENT UNIT

FOR THE YEAR ENDED DECEMBER 31, 2004

	Council on Aging
Revenues	
Property taxes	\$ 186,464
Intergovernmental	
Federal	31,519
State	32,502
Charges for services	169,193
Interest	1,202
Total revenues	420,880
Expenditures	
Health and welfare	447,088
Net change in fund balance	(26,208)
Fund balance, beginning of year	97,813
Fund balance, end of year	\$ 71,605

SINGLE AUDIT SECTION

MISSAUKEE COUNTY, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2004

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	AWARD OR PASS THROUGH NUMBER	EXPENDITURES FOR THE YEAR ENDED DECEMBER 31, 2004
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed through Michigan State Housing Development Authority (MSHDA)			
CDBG - State program	14.228	MSC-2001-0763-HOA	\$ 104,957
Program income from prior year revolving loan funds	14.228		53,875
			158,832
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Passed through Michigan Department of Community Health - Office of Drug Control Policy			
Byrne Formula - School Liason/Community Law Enforcement Officer	16.579	2000SHWX0813	13,228
Byrne Formula - Multijurisdictional Task Force TNT	16.579	70772-5k02	60,891
Byrne Formula - Multijurisdictional Task Force TNT	16.579	70772-6-03-B	182,776
Byrne Formula - Local Law Enforcement Block Grant	16.579	83068-1-04-L	9,536
			266,431
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY/U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed through Michigan Department of State Police			
Emergency Management Performance Grant	83.552		15,137
State Homeland Security Grant - Solution Area Planner	16.007		16,813
State Homeland Security Grant - Exercise Grant	16.007		7,991
State Homeland Security Grant - Emergency training grant	97.004		1,592
State Domestic Preparedness Equipment Grant	16.007		29,256
State Homeland Security Grant	97.004		14,503
			85,292
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Passed through Michigan Department of State Police			
Hazardous Materials Emergency Preparedness Grant	20.703		2,008

Continued.....

MISSAUKEE COUNTY, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2004

U.S. DEPARTMENT OF AGRICULTURE

Passed through Area Agency on Aging of Northwest Michigan

Dining Out	10.570	<u>\$ 17,827</u>
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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Passed through Area Agency on Aging of Northwest Michigan

Title III E - Request for Proposal	93.052	6,000
Title III B - Information and Assistance	93.044	7,692

Passed through Michigan Department of Community Health

Title IVD cooperative reimbursement - prosecutor	93.563	10,487
FOC Incentive	93.560	<u>32,182</u>

Total U.S. Department of Health and Human Services		<u>56,361</u>
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TOTAL FEDERAL AWARD EXPENDITURES	586,751
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Less program income not recorded as federal revenue	<u>(53,875)</u>
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Total governmental funds federal revenue	<u>\$ 532,876</u>
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Reconciliation of federal revenues to basic financial statements

Governmental funds	\$ 501,357
Council on Aging	<u>31,519</u>

Total federal revenues per financial statements	<u>\$ 532,876</u>
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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Concluded

Basis of presentation - The schedule of expenditures of federal awards includes the federal grant activity of the County and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

Subrecipients- Of the expenditures presented in the schedule, \$167,432 were passed on to subrecipient agencies.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

March 9, 2005

Board of Commissioners
Missaukee County
Lake City, Michigan

We have audited the financial statements of governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *Missaukee County, Michigan* (the "County"), as of and for the year ended December 31, 2004, and have issued our report thereon dated March 9, 2005. The report on the aggregate discretely presented component units contained an adverse opinion, because the Missaukee County Road Commission discrete component unit was not included in the *Missaukee County, Michigan* financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the financial statements of the *District Health Department No. 10* discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on those financial statements insofar as it related to the amounts included for the *District Health Department No. 10* discretely presented component unit, is based on the report of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the County in a separate letter dated March 9, 2005.

This report is intended solely for the information and use of management, members of the Board of Commissioners, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Compliance and other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A – 133**

March 9, 2005

Board of Commissioners
Missaukee County
Lake City, Michigan

Compliance

We have audited the compliance of *Missaukee County, Michigan* (the “County”) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. The County’s major federal programs are identified in the summary of auditor results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County’s management. Our responsibility is to express an opinion on the County’s compliance based on our audit.

The County’s financial statements include the operations of the District Health Department No. 10, for its year ended September 20, 2004, which received \$3,582,309 in federal awards. Federal awards received by the District Health Department No. 10 is not included in the County’s schedule of Expenditures of Federal Awards during the year ended December 31, 2004. Our audit as described below, did not include the operations of the District Health Department No. 10 because the component unit engaged other auditors to perform audits in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County’s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County’s compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, others within the organization, the Board of Commissioners, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MISSAUKEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2004

SECTION I - SUMMARY OF AUDITORS RESULTS:

Financial Statements

Type of Auditors report issued:	Adverse for the aggregate discretely presented component units and unqualified for governmental activities, business type activities, each major fund and the aggregate remaining fund
Internal control over financial reporting:	
Material weakness identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Non-compliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) ?	No
Identification of major program:	

<u>CFDA #</u>	<u>Name of Program</u>
16.579	Byrne Formula Grants

MISSAUKEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2004

Dollar threshold to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as a low risk auditee?	Yes
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SECTION II – FINANCIAL STATEMENT FINDINGS

No financial statement findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings or questioned costs are reported.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

May 9, 2005

County Commission
Missaukee County
Lake City, Michigan

In planning and performing our audit of the financial statements of *Missaukee County* (the "County") as of and for the year ended December 31, 2004, we considered the County's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated May 9, 2005 on the financial statements of the County.

We will review the status of these comments and suggestions during our next audit engagement. We have already discussed many of these comments and suggestions with various County personnel and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

We would like to thank everyone at the County, especially the Treasurer's and Clerk's Office, for their cooperation during the audit.

Rehmann Robson

MISSAUKEE COUNTY

MANAGEMENT COMMENTS and RECOMENDATIONS

DECEMBER 31, 2004

1) Ambulance billing and receipting

Ambulance receivables are being billed and receipted by one individual. When one person has control over both sides of the transaction (billing and receipting) this allows the possibility of unauthorized discounts or credits being issued or lapping of receivables. There are controls that can be put in place, which would mitigate this risk. One solution is to separate the duties and have one individual perform the billing and another perform the receipting function. Another is to have management review the reports and occasionally rotate duties between individuals. These additional controls will mitigate the risk of misappropriation of cash from receivables being incorrectly discounted or written off.

2) Inmate Commissary bank account

We reviewed the Inmate Commissary bank account and we noted it was not being reconciled to the Swanson financial software system. This account should be reconciled monthly. Monthly bank account reconciliation is a key control over the collection and disbursement process.

3) Coding of expenditures

In testing expenditures and review of the general ledger detail we noted the County's account numbers could more accurately reflect the State chart of accounts. This prohibits the County from being in complete compliance with the State and it inhibits efficiency in filling out required State forms such as the F-65. If the County were to change their account numbers to be in complete compliance with the State it would also allow easier analysis of accounts through software reports based on common denominator in the accounts such as all capital outlay accounts labeled 970.